

# Regions Institutional Investment Management

## State of Alabama Treasurer's Office

### Prepaid Affordable College Tuition (PACT) Program

As of December 31, 2020

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- Allocation Detail

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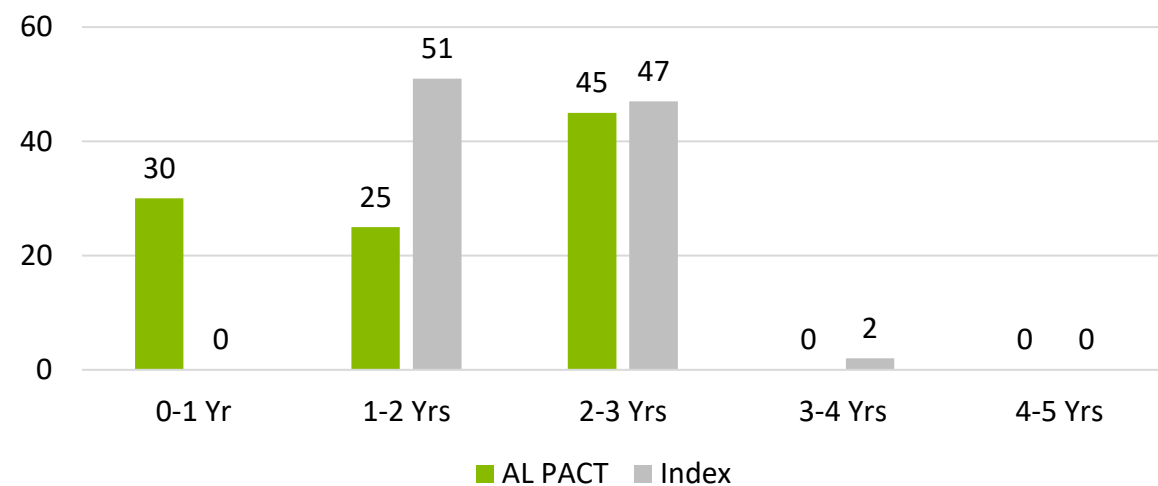
# State of Alabama Treasurer's Office – PACT Program

## Fixed Income Portfolio Characteristics as of 12.31.2020

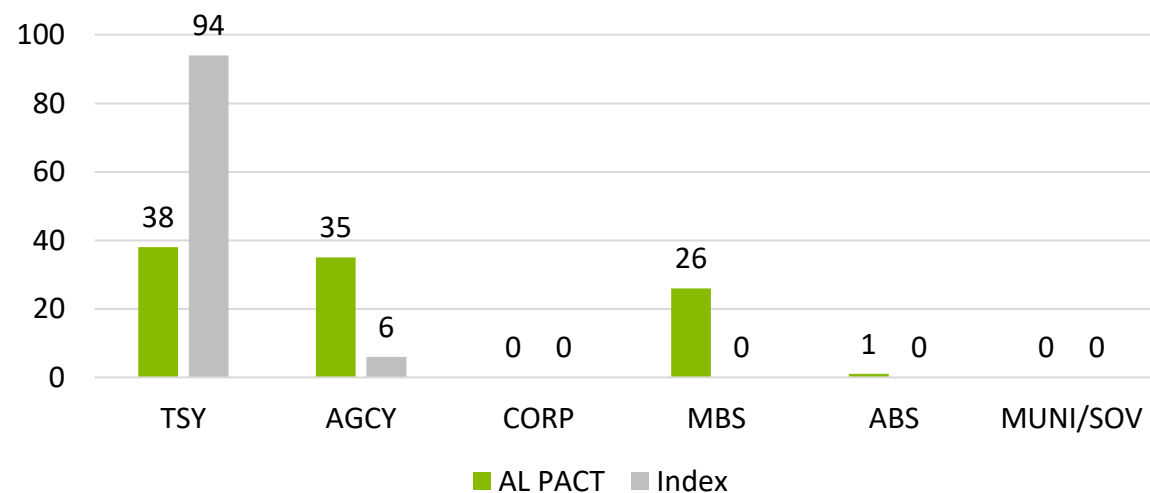
### Portfolio Characteristics

	AL PACT	Index
Yield to Maturity	0.19%	0.14%
Average Coupon	0.97%	1.43%
Effective Duration	0.89 years	1.95 years
Average Life	1.50 years	1.99 years
Average Quality	Aaa	Aaa

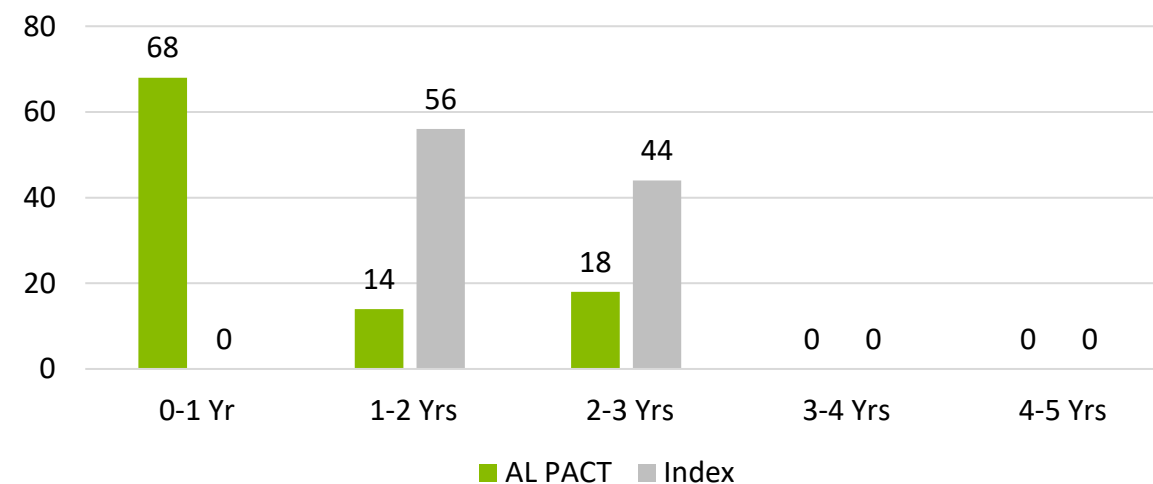
### Maturity vs. Index



### Sector vs. Index



### Duration vs. Index



Source: BondEdge & Barclays Capital  
 Index: Bloomberg Barclays 1-3 Year US Govt Index  
 The information presented above is supplemental to the fully compliant GIPS® performance presentation.

\*\*\* Market Value for Fixed Income Portfolio: \$17.1 million \*\*\*



# State of Alabama Treasurer's Office – PACT Program

## Performance as of 12.31.2020

	Qtr	YTD	1-Yr	3 Years *	5 Years *	Inception *
<b>Consolidated Portfolio</b>	<b>0.01%</b>	<b>2.70%</b>	<b>2.70%</b>	<b>2.55%</b>	<b>2.10%</b>	<b>2.10%</b>
<b>Money Market Fund</b>	<b>0.01%</b>	<b>0.35%</b>	<b>0.35%</b>	<b>1.46%</b>	<b>1.16%</b>	<b>1.16%</b>
<b>Fixed Income Portfolio</b>	<b>0.05%</b>	<b>3.12%</b>	<b>3.12%</b>	<b>2.88%</b>	<b>2.34%</b>	<b>2.34%</b>
1-3 YR Govt Only	0.05%	3.14%	3.14%	2.76%	1.92%	1.92%
<i>Excess Return</i>	<i>0.00%</i>	<i>-0.02%</i>	<i>-0.02%</i>	<i>0.12%</i>	<i>0.42%</i>	<i>0.42%</i>

\*\*\* Market Values: Consolidated: \$96.3 mm / Money Market: \$79.2 mm / Fixed Income: \$17.1 mm\*\*\*

Source: SEI for client returns; Bloomberg Barclays for index returns

Index: Bloomberg Barclays 1-3 Year US Govt Index

Returns are net of fees. Past performance does not guarantee future returns. \*Figures for periods greater than one year are annualized.

Inception Date: 12/31/2015

# State of Alabama Treasurer's Office – PACT Program

## Allocation Detail as of 12.31.2020

INVESTMENT RETURN SUMMARY - QUARTER ENDING DECEMBER 31, 2020						
Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Adj. for Portion of Fixed Income Account Instructed to Hold in Money Market	Investment Return	Current Quarter Market Value *
Acct 1051002572	0.05%	\$80,164,364	\$0	(\$63,091,475)	\$14,210	\$17,087,098
Acct 1050002565	0.01%	16,064,123	0	63,091,475	-1,119	\$79,154,479
Demand Deposit	0.00%	935,890	43,993	0	0	\$979,883
<b>Total Portfolio</b>	<b>0.01%</b>	<b>\$97,164,376</b>	<b>\$43,993</b>	<b>\$0</b>	<b>\$13,091</b>	<b>\$97,221,460</b>

\* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$1,921,273.21 that was in the Treasury Account on December 31, 2020.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING DECEMBER 31, 2020						
Prior Quarter Market Value	%	Fund Name	Style	Adj. for Portion of Fixed Income Account Instructed to Hold in Money Market	Current Quarter Market Value *	%
\$0	0%	Residual	(CASH)	0	0	0%
\$80,164,364	83%	Acct 1051002572	(STFX)	-63,091,475	17,087,098	18%
\$16,064,123	17%	Acct 1050002565	(CASH)	63,091,475	79,154,479	81%
\$935,890	1%	Demand Deposit	(CASH)	0	979,883	1%
<b>\$97,164,376</b>	<b>100%</b>		<b>(TOTL)</b>	<b>\$0</b>	<b>97,221,460</b>	<b>100%</b>

\* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$1,921,273.21 that was in the Treasury Account on December 31, 2020.

# Market Updates

- Market Returns
- Economic Update
- Fixed Income Markets

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# Market Returns

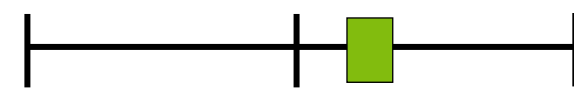
	YTD As of 12/30/20	Trailing 3 Months 12/30/20	2019	2018	2017	2016	2015	2014
Equities								
S&P 500 Index (Large Cap Stocks)	18.40%	12.15%	31.49%	-4.38%	21.83%	11.96%	1.38%	13.69%
<i>S&amp;P 500 (Large Cap Growth)</i>	33.47%	10.66%	31.13%	-0.01%	27.44%	6.89%	5.52%	14.89%
<i>S&amp;P 500 (Large Cap Value)</i>	1.36%	14.49%	31.93%	-8.95%	15.36%	17.40%	-3.13%	12.36%
Russell 2500 Index (Small to Mid Cap Stocks)	19.99%	27.41%	27.77%	-10.00%	16.81%	17.59%	-2.90%	7.07%
<i>Russell Mid Cap TR USD</i>	17.10%	19.91%	30.54%	-9.06%	18.52%	13.80%	-2.44%	13.22%
<i>Russell 2000 Index (Small Cap Stocks)</i>	19.96%	31.37%	25.52%	-11.01%	14.65%	21.31%	-4.41%	4.89%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	10.65%	17.01%	21.51%	-14.20%	27.19%	4.50%	-5.66%	-3.87%
<i>MSCI EAFE Index (Foreign Stocks, Net Return)</i>	7.82%	16.05%	22.01%	-13.79%	25.03%	1.00%	-0.81%	-4.90%
<i>MSCI EM (Foreign Stocks, Net Return)</i>	18.31%	19.70%	18.42%	-14.58%	37.28%	11.19%	-14.92%	-2.19%
Fixed Income								
Barclays US Agg Bond TR USD	7.51%	0.67%	8.72%	0.01%	3.54%	2.65%	0.55%	5.97%
S&P National AMT-Free Muni Bond	4.95%	1.86%	7.42%	1.01%	5.09%	0.36%	3.26%	8.92%
Barclays Global Agg Ex USD TR	10.11%	5.09%	5.09%	-2.15%	10.51%	1.49%	-6.02%	-3.08%
Barclays High Yield Corp TR USD	7.11%	6.45%	14.32%	-2.08%	7.50%	17.13%	-4.47%	2.45%
Barclays US Treasury US TIPS	10.99%	1.62%	8.43%	-1.26%	3.01%	4.68%	-1.44%	3.64%
FTSE Treasury Bill 3 Month (Money Market)	0.58%	0.02%	2.25%	1.86%	0.86%	0.33%	0.05%	0.03%
Diversified Strategies								
HFRX Global Hedge Index	6.81%	5.11%	8.62%	-6.72%	5.98%	2.50%	-3.64%	-0.58%

Source: Morningstar

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# Economy

## Overview & Outlook

Economy		<p><u>Risks:</u></p> <ul style="list-style-type: none"> <li>▪The ongoing surge in COVID-19 cases is impacting the labor market, consumer confidence, and consumer spending, while disruption factory production and supply chains. With remaining financial assistance provided by the CARES Act set to expire in late-December, the economy could slow considerably in Q1 2021.</li> </ul>	<p><u>Opportunities:</u></p> <ul style="list-style-type: none"> <li>▪The prospect of an effective vaccine being widely available for distribution around mid-2021 offers hope of meaningfully stronger growth in late-2021 and early-2022. What remain highly accommodative financial conditions could provide a powerful tailwind for growth over that time frame.</li> </ul>
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### *A Darker Winter, But The Promise Of A Brighter Spring*

#### COVID-19 Surge Weighing On The Economy As 2020 Comes To A Close

- The BEA's second estimate shows real GDP grew at an annualized rate of 33.1 percent in Q3, matching the initial estimate. The level of real GDP remains 3.5 percent below that of Q4 2019.<sup>1</sup> Our December baseline forecast anticipates real GDP will contract by 3.6 percent for full-year 2020, followed by growth of 3.2 percent in 2021.
- The ISM Manufacturing Index fell to 57.5 percent in November but nonetheless points to further growth in the factory sector. While the indexes of new orders and current production remained notably elevated, the employment index fell below 50 percent, which mainly reflects labor supply disruptions stemming from rising COVID-19 case counts, as some firms had to shut down production lines due to staff shortages. This contributed to further growth in backlogs of unfilled orders.<sup>2</sup> The Federal Reserve's data on industrial production also point to further growth in November, but the level of output in the manufacturing sector remains 3.8 percent below the pre-pandemic peak.<sup>3</sup>
- November retail sales were surprisingly weak, with total retail sales falling by 1.1 percent and control retail sales, a direct input into the GDP data on consumer spending, down by 0.5 percent.<sup>4</sup> In part, this reflects the effects of the ongoing surge in COVID-19 cases, as seen the steep decline in restaurant sales. Sales at brick-and-mortar retailers were also weak, a sign of diminished foot traffic, particularly over the Black Friday weekend. While to a large degree this was offset by increased online sales, there are few signs of that in the retail sales data. There are likely calendar effects in play, as Cyber Monday fell on the 30<sup>th</sup> of the month and was likely missed in the November retail sales data.

Source: 1) Bureau of Economic Analysis (BEA); 2) Institute for Supply Management (ISM); 3) Federal Reserve Board; 4) U.S. Census Bureau; 5) Bureau of Labor Statistics (BLS)

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#### Will December Employment Report Be A Downer?

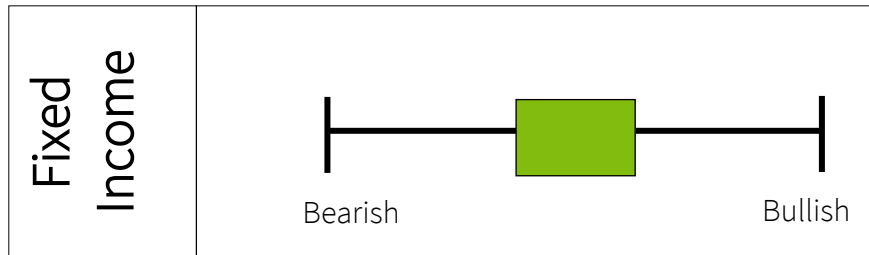
- Total nonfarm employment rose by 245,000 jobs in November, with private sector payrolls up by 344,000 jobs and public sector payrolls down by 99,000 jobs, largely reflecting an additional 93,000 temporary jobs tied to the 2020 Census running off the books. As of November, the level of nonfarm employment was 9.834 million jobs below the pre-pandemic peak.<sup>5</sup>
- The unemployment rate fell to 6.7 percent in November, but this is strictly a function of a decline in labor force participation. As of November, there were 4.1 million fewer people in the labor force than there were in January. The duration of unemployment remains a concern; as of November, there were 3.941 million people who had been unemployed for 15 or more weeks, the highest total since November 2013.<sup>5</sup> Other indicators, such as initial claims for unemployment insurance and data from the Census Bureau's *Small Business Pulse Survey*, raise the possibility that nonfarm employment could decline in December, reflecting the impacts of the ongoing surge in COVID-19 cases.
- The ongoing surge in COVID-19 cases poses a downside risk to growth in Q4 2020 and, to a greater degree, Q1 2021. At the same time, however, the prospect that an effective vaccine will be available for widespread distribution around mid-2021 poses an upside risk to growth over late-2021/early-2022. As Fed Chairman Jerome Powell put it in his press conference following the November FOMC meeting, "the issue is getting through the next four-to-six months." At this writing, Congress is still negotiating the details of a new round of financial aid for small businesses and households but appears close to a deal. That would mitigate, but not eliminate, the downside risks to near-term growth.



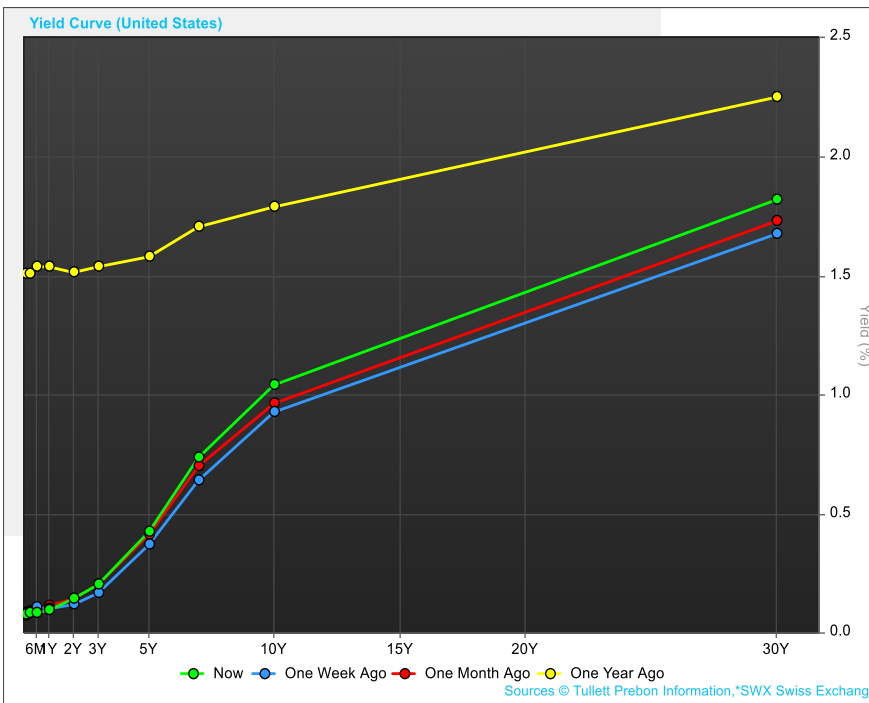


# Fixed Income

## Overview & Outlook



Yields as of December 31, 2020	
US Treasuries	
3-month	0.06%
2-year	0.12%
5-year	0.36%
10-year	0.91%
30-year	1.65%



### Summary View: Neutral

- U.S. Treasuries, despite low yields on an absolute basis, are appealing compared to negative yields on 'comparable' foreign sovereign bonds. Additionally, the Federal Open Market Committee (FOMC), has cut the Fed funds rate to zero and continues to purchase Treasuries, investment-grade corporates, municipal bonds, and even investment-grade and high yield bond ETFs, leading to a rapid expansion of its balance sheet. We want to own what the Fed/Treasury continues to buy, specifically, agency mortgage-backed securities (MBS) and investment-grade corporate bonds. We prefer active management in corporate credit to the index-linked ETFs that the Fed/Treasury have been purchasing.
- Diversification and a focus on quality remain crucial concepts for fixed income investors to remember as we move into 2021 with a fluid U.S. economic, political, and geopolitical backdrop in place. We believe there remains relative value in select asset-backed and mortgage-backed securities, as well as dollar-denominated emerging market debt, but properly sizing exposures is of the utmost importance.
- As the U.S. economy reaccelerates in 2021 and additional fiscal relief and potentially infrastructure spending materialize, we expect upward pressure on interest rates to persist, leading us to recommend a duration profile below that of the Bloomberg Barclays Aggregate Bond index to reduce interest rate sensitivity.

**Risks:** Facing the prospect of falling short of required hurdle rates or expected inflation, investors increase allocations to riskier segments of the fixed income marketplace, and/or shift allocations out of bonds and into 'stocks that look like bonds,' taking on heightened volatility and larger potential drawdowns. Investors hiding out in safe-haven Treasuries could experience negative returns on paper should long-term rates rise modestly.

	YTD 12/31/2020	2019	2018	2017	2016	2015
Total Return						
Barclays US Agg Bond TR USD	7.51%	8.72%	0.01%	3.54%	2.65%	0.55%
Barclays High Yield Corp TR USD	7.11%	14.32%	-2.08%	7.50%	17.13%	-4.47%
Barclays Global Agg Ex USD TR	10.11%	5.09%	-2.15%	10.51%	1.49%	-6.02%
Barclays US Treasury US TIPS	10.99%	8.43%	-1.26%	3.01%	4.68%	-1.44%
FTSE Treasury Bill 3 Month (Money Market)	0.58%	2.25%	1.86%	0.86%	0.33%	0.05%

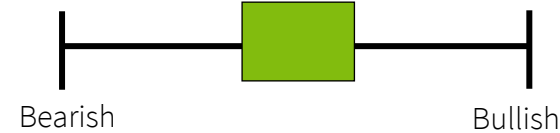
Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

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# Equities

## Overview & Outlook

### Equities



#### S&P 500 Statistics as of December 31, 2020

##### Fundamentals

2020 Earnings	\$137
2021 Earnings Estimates	\$167
Forward P/E	22.3x
Dividend Yield	1.54%
<b>Technicals</b>	
% of Stocks Above 200ma	88%
VIX (CBOE Volatility Index)	22.75



#### Summary View: Neutral

- Domestic equity valuations remain stretched, but with the Fed funds rates expected to remain at the zero-bound for years to come, valuations will likely remain supported above historical levels.
- We remain overweight U.S. large-cap stocks due to diversified supply chains, pricing power, fortress balance sheets, and relatively attractive dividend yields versus U.S. Treasuries and investment-grade corporate bonds.
- Small- and mid-cap stocks could be relative winners in '21 as tight credit spreads remain supportive and this cohort of stocks has historically done well coming out of recessions, but the ride will likely be bumpy.
- International stocks remain attractively valued and unprecedented fiscal stimulus out of the Eurozone leads us to a more constructive stance on Europe. However, we remain comfortable with an underweight allocation as mandated economic shutdowns to curtail the spread of COVID-19 will hinder the pace of economic recovery in '21.
- U.S. supply chains rely on emerging economies for intermediate or finished goods and in some industries, companies face pressure to shift production back to the United States. A weaker U.S. dollar will provide a near-term tailwind, but we remain comfortable with a neutral allocation to emerging market equities relative to our strategic target as, outside of Asia, COVID-19 cases will likely continue to create economic uncertainty, weighing on near-term growth.

**Risks:** Fiscal relief fails to pass early in '21 or falls short of what is anticipated in size; Gridlock in D.C. fails to materialize and sweeping changes at the industry level or to tax rates occurs; Interest rates rise sharply as economic growth and inflation expectations surprise to the upside, providing an alternative for investors forced into stocks due to low rates.

	YTD 12/31/2020	2019	2018	2017	2016	2015
<b>Total Return</b>						
S&P 500 Index (Large Cap)	18.40%	31.49%	-4.38%	21.83%	11.96%	1.38%
S&P 500 (Large Cap Growth)	33.47%	31.13%	-0.01%	27.44%	6.89%	5.52%
S&P 500 (Large Cap Value)	1.36%	31.93%	-8.95%	15.36%	17.40%	-3.13%
Russell 2500 Index (Small to Mid Cap)	19.99%	27.77%	-10.00%	16.81%	17.59%	-2.90%
Russell Mid Cap Index (Mid Cap)	17.1%	30.54%	-9.06%	18.52%	13.80%	-2.44%
Russell 2000 Index (Small Cap)	19.96%	25.52%	-11.01%	14.65%	21.31%	-4.41%
MSCI World Ex-US (Foreign Stocks, Net Return)	10.65%	21.51%	-14.09%	24.21%	2.75%	-3.04%
MSCI EAFE Index (Foreign Stocks, Net Return)	7.82%	22.01%	-13.79%	25.03%	1.00%	-0.81%
MSCI EM (Foreign Stocks, Net Return)	18.31%	18.42%	-14.58%	37.28%	11.19%	-14.92%

Source: Prepared by Regions Asset Management using data from Morningstar and FactSet.

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